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# **CORPORATE TAX BURDEN COMPARISON WOOD PRODUCTS INDUSTRY**

**By: Pam Walgren  
Blair Kruger**

**Wisconsin Department of Revenue  
Division of Research and Policy  
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### For Further Information

Please direct questions regarding this report to:

Pam Walgren (income/franchise and property taxes)  
pwalgren@dor.state.wi.us

Blair P. Kruger (sales tax)  
bkruger@dor.state.wi.us

This report is available on the Wisconsin Department of Revenue  
website at <http://www.dor.state.wi.us/>

## **CORPORATE TAX BURDEN COMPARISON: WOOD PRODUCTS INDUSTRY**

### **A. INTRODUCTION**

Businesses consider a wide variety of factors in making location decisions. Because tax systems vary among states, the expected amount of tax paid is one of the factors in business location decisions.

The purpose of this report is to compare the direct business tax liabilities incurred by a hypothetical wood products manufacturing corporation (SIC 2400; NAICS 321000) if it were located in 15 industrial states. Taxes included in this comparison are the corporate income, franchise, property and sales taxes. This method allows the report to isolate the impact of differences between the tax laws of each state. Accordingly, the results are sensitive to assumptions made about the hypothetical firm and to other general assumptions made in the comparison.

The U.S. Bureau of the Census defines Wood Product Manufacturing, NAICS 321000, as follows:

Industries in the Wood Products Manufacturing subsector manufacture wood products, such as lumber, plywood, veneers, wood containers, wood flooring, wood trusses, manufactured homes (i.e., mobile home), and prefabricated wood buildings. The production processes of the Wood Product Manufacturing subsector include sawing, planing, shaping, laminating, and assembling of wood products starting from logs that are cut into bolts, or lumber that then may be further cut, or shaped by lathes or other shaping tools. The lumber or other transformed wood shapes may also be subsequently planed or smoothed, and assembled into finished products, such as wood containers. The Wood Product Manufacturing subsector includes establishments that make wood products from logs and bolts that are sawed and shaped, and establishments that purchase sawed lumber and make wood products. With the exception of sawmills and wood preservation establishments, the establishments are grouped into industries mainly based on the specific products manufactured.

States were chosen for the comparison based on industry presence in the states, indicated by value added to products produced in each state, and by their proximity to Wisconsin. The 15 states included in the comparison are Alabama, California, Georgia, Illinois, Indiana, Iowa, Michigan, Minnesota, North Carolina, Ohio, Oregon, Pennsylvania, Virginia, Washington, and Wisconsin.

In 2006, Wisconsin began phasing in a formula to apportion income to the state based only on the amount of sales a company makes in Wisconsin compared to sales made everywhere. Single-sales factor apportionment will be fully phased in for taxable years beginning in 2008. As a result, this paper includes two Wisconsin comparisons: the first under current law and the second as if single-sales factor apportionment were fully phased in.

State and local taxes are only one of the many costs of doing business. Other significant factors affecting location decisions include the accessibility of markets, raw materials, and suppliers; availability of a skilled labor force and labor costs; the availability and quality of transportation and other public services; regulatory processes; and the quality of life. It is difficult to rank taxes among the many factors. Each corporation will make its own determination based on the unique nature of each location decision, and it is difficult to predict how often taxes will rank as an important cost of doing business.

This analysis is for illustrative purposes only and is intended to present information on tax laws in Wisconsin and other states in a simple and easily understood manner. Actual calculations are more complex and tax burdens may vary with consideration of additional variables or tax laws.

## B. TOTAL TAX BURDEN SUMMARY

The hypothetical corporation is a small multistate wood products manufacturer that has the majority of its property and employees in its home state, but sells most of its products regionally and nationally. The corporation has total assets of \$15.3 million, sales of more than \$24 million and income before tax of slightly more than \$1 million. The analysis is for tax treatment in 2006. The methodology and assumptions used in calculating the taxes are described in the appendix.

Table 1 shows the total tax liability ranking of the corporation by state, as well as the percent that each tax is of total tax. For this comparison, total tax liability is the sum of sales, property, income, and franchise taxes. A ranking of 1 denotes the highest tax liability among the states compared.

**TABLE 1**  
**TOTAL TAX LIABILITY AND RANK**

State	Total Tax Liability		Income and Franchise Tax		Sales Tax		Property Tax	
	Amount	Rank	Amount	%	Amount	%	Amount	%
Alabama	\$155,902	6	\$ 36,600	23%	\$ 38,351	25%	\$ 89,850	58%
California	141,205	12	52,776	37%	23,610	17%	64,818	46%
Georgia	200,096	3	23,767	12%	68,891	34%	107,438	54%
Illinois	139,647	13	10,973	8%	41,720	30%	86,953	62%
Indiana	259,068	1	44,299	17%	24,135	9%	190,634	74%
Iowa	151,872	8	20,764	14%	8,136	5%	122,972	81%
Michigan	232,059	2	27,998	12%	6,974	3%	197,088	85%
Minnesota	152,037	7	48,185	32%	9,394	6%	94,458	62%
North Carolina	149,722	9	50,647	34%	23,014	15%	76,062	51%
Ohio	169,999	4	37,575	22%	6,156	4%	126,268	74%
Oregon	109,392	15	19,699	18%	-	0%	89,693	82%
Pennsylvania	132,734	14	56,055	42%	6,974	5%	69,705	53%
Virginia	100,723	16	35,866	36%	5,812	6%	59,046	59%
Washington	143,059	10	33,568	23%	9,764	7%	99,727	70%
Wisconsin	160,619	5	41,312	26%	31,325	20%	87,982	55%
Wisconsin 2008	142,283	11	22,976	16%	31,325	22%	87,982	62%

As shown in Table 1, the total tax burden is highest in Indiana and lowest in Virginia. The variation between the highest and lowest taxes in those states is significant. Wisconsin ranks five in total tax liability under current law, but drops to 11 under the law that will be in place in 2008 when single-sales factor apportionment is fully effective.

Also as shown in Table 1, property taxes were the largest component of total tax liability. In fact, property taxes make up more than 50% of the total tax burden in every state except California. Sales tax contributed modestly to the total tax burden in most states.

Corporations consider taxes to be one of the many costs of doing business, and therefore are interested in how the tax costs relate to revenue and profitability. Tables 2 and 3 provide comparisons across states of indicators of profitability and location. Table 2 shows the tax burdens of the states as they relate to sales of the hypothetical company and to income before tax. Table 3 relates the tax burdens to the average tax burden of the 15 states and to Wisconsin's tax burden under current law and in 2008, when single-sales factor apportionment is fully phased in.

**TABLE 2**  
**STATE TAX LIABILITY AS PERCENTAGE**  
**RELATIONSHIPS TO COMPANY SALES AND INCOME**

<b>State</b>	<b>Total Liability Amount</b>	<b>% of Sales</b>	<b>% of Income</b>
Alabama	\$ 155,902	0.63%	14.39%
California	141,205	0.57%	13.04%
Georgia	200,096	0.81%	18.47%
Illinois	139,647	0.57%	12.89%
Indiana	259,068	1.05%	23.92%
Iowa	151,872	0.62%	14.02%
Michigan	232,059	0.94%	21.43%
Minnesota	152,037	0.62%	14.04%
North Carolina	149,722	0.61%	13.82%
Ohio	169,999	0.69%	15.70%
Oregon	109,392	0.44%	10.10%
Pennsylvania	132,734	0.54%	12.26%
Virginia	100,723	0.41%	9.30%
Washington	143,059	0.58%	13.21%
Wisconsin	160,619	0.65%	14.83%
Wisconsin 2008	142,283	0.58%	13.14%
Sales	\$ 24,615,971		
Income Before Tax	1,083,101		

As Table 2 indicates, the total tax liability is between 0.41% and 1.05% of company sales. The average of the 15 states is 0.65%. Total tax liability ranges between 9.3% and 23.92% of income before tax, with a 15-state average of about 14.7%.

**TABLE 3**  
**STATE TAX LIABILITY AS PERCENTAGE RELATIONSHIPS TO WISCONSIN AND AVERAGE**

State	Total Liability					Sales Tax		
	Amount	% of WI	% of WI 2008	% of Avg.	% of Avg. 2008	Amount	% of WI	% of Avg.
Alabama	\$155,902	97%	110%	98%	98%	\$ 38,351	122%	189%
California	141,205	88%	99%	88%	89%	23,610	75%	116%
Georgia	200,096	125%	141%	125%	126%	68,891	220%	340%
Illinois	139,647	87%	98%	87%	88%	41,720	133%	206%
Indiana	259,068	161%	182%	162%	163%	24,135	77%	119%
Iowa	151,872	95%	107%	95%	96%	8,136	26%	40%
Michigan	232,059	144%	163%	145%	146%	6,974	22%	34%
Minnesota	152,037	95%	107%	95%	96%	9,394	30%	46%
North Carolina	149,722	93%	105%	94%	94%	23,014	73%	113%
Ohio	169,999	106%	119%	106%	107%	6,156	20%	30%
Oregon	109,392	68%	77%	68%	69%	0	0%	0%
Pennsylvania	132,734	83%	93%	83%	84%	6,974	22%	34%
Virginia	100,723	63%	71%	63%	63%	5,812	19%	29%
Washington	143,059	89%	101%	89%	90%	9,764	31%	48%
Wisconsin	160,619	100%	113%	100%	101%	31,325	100%	154%
Wisconsin 2008	142,283	89%	100%	89%	90%	31,325	100%	154%
15 State Average	\$ 159,876					\$ 20,284		
15 State Average, WI 2008	158,653					20,284		

State	Income and Franchise Tax					Property Tax		
	Amount	% of WI	% of WI 2008	% of Avg.	% of Avg. 2008	Amount	% of WI	% of Avg.
Alabama	\$ 36,600	89%	159%	105%	105%	\$ 89,850	102%	86%
California	52,776	128%	230%	152%	152%	64,818	74%	62%
Georgia	23,767	58%	103%	68%	68%	107,438	122%	103%
Illinois	10,973	27%	48%	32%	32%	86,953	99%	83%
Indiana	44,299	107%	193%	127%	127%	190,634	217%	183%
Iowa	20,764	50%	90%	60%	60%	122,972	140%	118%
Michigan	27,998	68%	122%	80%	80%	197,088	224%	189%
Minnesota	48,185	117%	210%	139%	139%	94,458	107%	91%
North Carolina	50,647	123%	220%	146%	146%	76,062	86%	73%
Ohio	37,575	91%	164%	108%	108%	126,268	144%	121%
Oregon	19,699	48%	86%	57%	57%	89,693	102%	86%
Pennsylvania	56,055	136%	244%	161%	161%	69,705	79%	67%
Virginia	35,866	87%	156%	103%	103%	59,046	67%	57%
Washington	33,568	81%	146%	97%	97%	99,727	113%	96%
Wisconsin	41,312	100%	180%	119%	119%	87,982	100%	84%
Wisconsin 2008	22,976	56%	100%	66%	66%	87,982	100%	84%
15 State Average	\$ 36,006					\$ 104,180		
15 State Average, WI 2008	34,783					104,180		

Table 3 shows that single-sales factor apportionment will reduce the hypothetical corporation's Wisconsin tax liability by 11% and its Wisconsin income/franchise tax liability by 44%. With this change fully implemented, 10 of the other 14 states would impose greater total tax liability on the corporation than Wisconsin.

A brief discussion of the tax burden for each type of tax follows. For additional information regarding the taxes, see a discussion of the assumptions for each tax and a description of each state's taxing provisions in the appendix.

## C. PROPERTY TAX

The hypothetical corporation has real property consisting of land and buildings and tangible personal property that may be subject to tax in the states compared. The majority of its personal property is manufacturing machinery and equipment, although it also has other equipment, and furniture and fixtures. The analysis assumes that 90% of all property is located in the home state of the corporation.

Table 4 shows the property tax rankings of each state for the hypothetical corporation. Table 5 summarizes property tax provisions relating to business property and tax rates in each state, and provides the effective tax rates for property taxed in the state and for all property located in the state, including property that is exempt. Additional information is summarized in the appendix.

**TABLE 4**  
**PROPERTY TAX LIABILITY**

State	Amount of Property Tax	Rank
Alabama	89,850	8
California	64,818	14
Georgia	107,438	5
Illinois	86,953	11
Indiana	190,634	2
Iowa	122,972	4
Michigan	197,088	1
Minnesota	94,458	7
North Carolina	76,062	12
Ohio	126,268	3
Oregon	89,693	9
Pennsylvania	69,705	13
Virginia	59,046	15
Washington	99,727	6
Wisconsin	87,982	10

**TABLE 5**  
**PROPERTY TAX PROVISIONS**

State	Exemptions		Effective Tax Rates	
	Inventory	M&E	Property Subject to Tax	All Property Located in State
Alabama	Yes	No	1.012%	0.732%
California	Yes	No	0.671%	0.528%
Georgia	Yes	No	1.210%	0.875%
Illinois	Yes	Yes	2.483%	0.708%
Indiana	Yes	No	2.412%	1.553%
Iowa	Yes	Yes	3.512%	1.002%
Michigan	Yes	No	2.220%	1.606%
Minnesota	Yes	Yes	2.698%	0.770%
North Carolina	Yes	No	0.857%	0.620%
Ohio	No	No	1.135%	1.029%
Oregon	Yes	No	0.998%	0.731%
Pennsylvania	Yes	Yes	1.991%	0.568%
Virginia	Yes	No	0.680%	0.481%
Washington	Yes	No	1.110%	0.812%
Wisconsin	Yes	Yes	2.001%	0.717%

The wood products manufacturer has significant value in personal property, including manufacturing machinery and equipment and inventory. Treatment of these items of property is important in determining the property tax liability for the corporation in each state. As a result of Wisconsin's property tax exemption for machinery and equipment, computers, and inventory, the state ranks low compared with many other states in the analysis. Virginia ranks low because of low assessment values and because all personal property is exempt. California ranks low because of its low tax rate and the effect of Proposition 13 limits on increases in assessments of long-standing properties. Michigan and Indiana rank high because they have fewer exemptions and relatively high tax rates.

#### **D. SALES TAX**

The hypothetical corporation makes annual purchases that are subject to sales and use tax. Machinery and equipment used in manufacturing and research make up the majority of those purchases. Purchases of other equipment and fuel and electricity are also compared. The wood products industry is both a substantial consumer and producer of power. However, the paper calculates sales taxes on purchased power only.

The variation among states in sales tax treatment of purchases has a significant impact on total tax costs. Exempting purchases of assets such as machinery and equipment from sales and use taxes, or applying lower tax rates to such purchases, lowers the cost of initial investment, while exempting inputs such as fuel or electricity lowers operating costs.

Table 6 shows the sales tax and rankings that would apply if the hypothetical corporation was located in each state. Table 7 provides the tax rates that apply to different types of property. Table 8 shows the sales tax treatment of various purchases. Computers and furniture and fixtures are taxable in all states and are not shown in the table.

**TABLE 6  
SALES TAX LIABILITY**

<b>State</b>	<b>Sales Tax</b>	<b>Rank</b>
Alabama	\$ 38,351	3
California	23,610	6
Georgia	68,891	1
Illinois	41,720	2
Indiana	24,135	5
Iowa	8,136	10
Michigan	6,974	11
Minnesota	9,394	9
North Carolina	23,014	7
Ohio	6,156	13
Oregon	-	15
Pennsylvania	6,974	11
Virginia	5,812	14
Washington	9,764	8
Wisconsin	31,325	4



**TABLE 7**  
**STATE & LOCAL SALES AND USE TAX RATES**

State	Combined State & Local General Rate	Other Applicable Rates	
		Electricity	Manufacturing M&E
Alabama	6.59%	---	---
California	7.25%	---	---
Georgia	6%	---	---
Illinois	7%	5.1%	3.125%
Indiana	6%	---	---
Iowa	7%	---	---
Michigan	6%	---	---
Minnesota	6.5%	---	---
North Carolina	7%	2.83%	1%
Ohio	7%	---	---
Oregon	0%	4.00%	2.59%
Pennsylvania	6%	---	---
Virginia	5%	---	---
Washington	8.4%	---	---
Wisconsin	5.5%	---	---

**TABLE 8**  
**SALES AND USE TAX TREATMENT**

State	Mfg. Mach. & Equip.	R&D Equip.	Pollution/ Enviro.	Other Non-Mfg.	Mfg. - Elec.	Mfg. - Nat. Gas	R&D - Elec.	R&D - Nat. Gas
Alabama	R	R	E	T	E	E	E	E
California	R	R	R	T	E	E	E	E
Georgia	E	T	E	T	T	T	T	T
Illinois	E	T	T	T	R	R	R	R
Indiana	E	R	E	T	E	E	T	T
Iowa	E	E	E	T	E	E	E	E
Michigan	E	T	E	T	E	E	E	E
Minnesota	E	E	T	T	E	E	E	E
North Carolina	R	R	R	T	R	E	R	E
Ohio	E	E	E	E	E	E	E	E
Oregon	E	E	E	E	E	E	E	E
Pennsylvania	E	E	E	T	E	E	E	E
Virginia	E	E	E	T	E	E	E	E
Washington	E	E	E	T	E	E	E	E
Wisconsin	E	T	E	T	E	E	T	T

T is taxable; E is exempt; and R is reduced rate or partial exemption.

Computers and furniture and fixtures are taxable in all states, except Oregon, and are not shown in the table.

The tax treatment of research equipment and fuel and electricity used in research are the most significant sources of differences in sales taxes among the states. Georgia has the highest sales tax liability of the states in the comparison, followed by Illinois and Alabama. Taxes on research equipment and fuel and electricity account for the relatively high sales taxes in Georgia and Illinois. Although Alabama taxes manufacturing and research machinery and equipment at a reduced rate of 2.59%, these taxes account for the state's third highest ranking. Since Oregon does not impose sales or use taxes, it has the lowest sales tax burden – zero. Virginia imposes the second lowest sales tax burden on the hypothetical company, with Ohio ranking third lowest

and Michigan and Pennsylvania tied for fourth lowest. Exemptions for research equipment and fuel and electricity used in research largely account for the low taxes in these states. Wisconsin ranks fourth highest, largely due to taxes on research equipment and fuel and electricity used in research.

Manufacturing machinery and equipment are exempt in all states except Alabama, California and North Carolina, where purchases are taxed at reduced rates. All states in the study tax computers as well as furniture and fixtures. Since the value of these purchases is relatively small, the differences in tax rates result in minor differences in tax burdens.

## E. INCOME/FRANCHISE TAX

Table 9 shows the corporate income/franchise tax liabilities and rankings for the hypothetical corporation. As used in this comparison, the term "income tax" includes taxes measured by net income and the term "franchise tax" refers to taxes based on capital stock, net worth or other asset-related measures, as well as annual corporate filing fees that may be paid to the Secretary of State or similar offices in the various states. This section combines the income and franchise tax liabilities because several states impose taxes that are the greater of an income or franchise tax, or impose additional taxes with the income tax, making a separate discussion less meaningful.

Tables 10 and 11 summarize key provisions relating to income and franchise tax. The top tax rate includes additional taxes imposed with the income tax. Additional information regarding the assumptions and tax in each state is included in the appendix.

**TABLE 9**  
**INCOME AND FRANCHISE TAX LIABILITY**

State	Income and Franchise Tax	Rank
Alabama	36,600	8
California	52,776	2
Georgia	23,767	12
Illinois	10,973	16
Indiana	44,299	5
Iowa	20,764	14
Michigan	27,998	11
Minnesota	48,185	4
North Carolina	50,647	3
Ohio	37,575	7
Oregon	19,699	15
Pennsylvania	56,055	1
Virginia	35,866	9
Washington	33,568	10
Wisconsin	41,312	6
Wisconsin 2008	22,976	13

**TABLE 10**  
**CORPORATE INCOME TAX PROVISIONS**

State	Apportionment Method	Effective Top Tax Rate	Carryover Period for NOLs		Combined or Consolidated Reporting	Allows QPAI Deduction
			Back	Forward		
Alabama	3-Factor	6.50%	None	15 Years	Yes	Yes
California	Double-Weight	8.84%	None	10 Years	Yes	No
Georgia	80% Sales	6%	2 Years	20 Years	No	No
Illinois	Single-Sales	7.3%	None	12 Years	Yes	Yes
Indiana	Double-Weight	8.5%	2 Years	20 Years	Yes	No
Iowa	Single-Sales	12%	2 Years	20 Years	Yes	Yes
Michigan	90% Sales	1.9%	None	10 Years	Yes	Yes
Minnesota	75% Sales	9.8%	None	15 Years	Yes	No
North Carolina	Double-Weight	6.9%	None	15 Years	No	No
Ohio	Triple-Weight	8.94%	None	20 Years	Yes	Yes
Oregon	Single-Sales	6.6%	None	15 Years	Yes	No
Pennsylvania	Triple-Weight	9.99%	None	20 Years	No	Yes
Virginia	Double-Weight	6%	2 Years	20 Years	Yes	Yes
Washington	N/A	N/A	N/A	N/A	N/A	N/A
Wisconsin 2006	60% Sales	8.137%	None	15 Years	No	Yes
Wisconsin 2008	Single-Sales	8.137%	None	15 Years	No	Yes

**TABLE 11**  
**NON-INCOME BASED FRANCHISE TAX PROVISIONS**

State	Annual Filing Fee	Franchise Tax	Tax Base	Rate
Alabama	\$10	Yes	Net Worth	Varies
California	20	No	Not Applicable	Not Applicable
Georgia	15	Yes	Net Worth	Varies
Illinois	75	Yes	Common Shares	2.50%
Indiana	15	No	Not Applicable	Not Applicable
Iowa	45	No	Not Applicable	Not Applicable
Michigan	None	No	Not Applicable	Not Applicable
Minnesota	None	No	Not Applicable	Not Applicable
North Carolina	10	Yes	Highest of 3 Alternatives	0.15%
Ohio	10	Yes	Net Worth	0.40%
Oregon	30	No	Not Applicable	Not Applicable
Pennsylvania	None	Yes	Authorized Capital Stock	1.28%
Virginia	50	Yes	Authorized Capital Stock	Varies
Washington	60	Yes	Gross Receipts	0.484%
Wisconsin	25	No	Not Applicable	Not Applicable

The income tax burden is determined by rules that define the amount of income subject to tax in a state and by the tax rates applied to taxable income. The income of a multistate corporation that is subject to tax is determined, in part, by the apportionment formula used to allocate income to the states where a company does business. Washington does not impose a general income tax on corporations. Every other state included in this comparison, except Alabama, weights the sales factor more heavily than the other factors in the apportionment formula. Alabama uses an equally weighted three-factor formula. Illinois, Iowa, and Oregon apportion income based solely on the amount of sales in the state relative to sales of the company everywhere. For a multistate company with a plant and employees in the state and regional or national sales, this method of apportionment reduces the income subject to tax when compared with formulas that consider property and payroll in the state. Wisconsin, Georgia, Indiana, and Minnesota have enacted single-sales factor apportionment that will be phased in over a number of years. There is also

significant variation in the highest tax rates, ranging from 1.9% in Michigan to 9.99% in Pennsylvania.

The largest income/franchise tax burdens occur if the company is located in Pennsylvania or California. California weights the sales factor at 50%, while Pennsylvania weights it at 60%, and both of these states have relatively high tax rates. The lowest tax burdens of states with an income tax occur in Illinois and Oregon. Both Illinois and Oregon have single-sales factor apportionment. In addition, both states have relatively low tax rates. In Wisconsin, the income/franchise tax liability rank drops from six under current law to 13 under single-sales factor apportionment. The income tax liability of the hypothetical corporation is reduced by \$18,336 under single sales factor apportionment compared with current law.

Most states compared conform to the federal qualified production activities income (QPAI) deduction that is being phased in over six years. The deduction for 2006 is 3% of certain costs associated with qualified domestic production activities. The deduction will be 9% when it is fully phased in. As shown in Table 10, California, Georgia, Indiana, Minnesota, North Carolina, and Oregon do not allow the deduction.

Although not used to calculate tax burdens in this comparison, the treatment of net operating losses (NOL) and consolidation or combination of income between related entities is included in the table of income tax provisions because those factors can be important in determining income subject to tax. NOL carryforward periods range from 10 years (California) to 20 years (Georgia, Indiana, Iowa, Ohio, Pennsylvania, and Virginia). Georgia, Indiana, Iowa, and Virginia also allow losses to be carried back two years. Every state except Georgia, North Carolina, Pennsylvania, and Wisconsin has some form of combined or consolidated reporting.

Each state compared has some form of enterprise or development zone program that could provide certain tax incentives to a business locating in a zone. These incentives are typically negotiated with businesses on a case-by-case basis by the state departments of development or commerce. As such, they are not included in this comparison.

As shown in Table 10, most of the states have some form of annual filing fee, ranging from \$10 in Alabama, North Carolina, and Ohio to \$75 in Illinois. Several of the states compared have a franchise tax based on capital stock or property in addition to, or instead of, an income tax.

## APPENDIX

### A. METHODOLOGY

This comparison calculates the 2006 state and local tax burden arising from the major taxes that a wood products industry corporation would pay in each state, including the corporate income, franchise, property, and sales taxes. For the comparisons to be meaningful, it is important to define the components of each of the major taxes.

As used in this comparison, the term "income tax" includes corporate income taxes and franchise taxes that are based on corporate net income. The term "franchise tax" includes annual filing fees and taxes that are based on capital stock, net worth or any measure other than corporate net income. While it is necessary to make these distinctions for comparison purposes across the states, use of the terminology in this way should not be interpreted to contradict the important legal distinction between the corporate income and franchise taxes.

This approach, within the limits of the assumptions applied, quantifies only the most significant tax differentials among the states. The analysis uses actual corporate income tax return data to establish financial statements and balance sheets for the hypothetical corporation. Since the comparisons rely on a hypothetical corporation, variations in the relationship of real property, inventories or other assets to income could have a substantial impact on the tax burdens in different states. In addition, other factors such as unemployment and worker's compensation costs, state and local taxes on individuals, transportation costs, wage rates for labor, and short-term tax and other locational incentives aimed at attracting industry all vary among the states and have an impact on the costs of doing business. These factors are beyond the scope of this comparison.

### B. ASSUMPTIONS

States and municipalities often offer special tax incentives to individual companies as a way to encourage companies to locate in particular areas. These incentives can apply to any tax and can significantly reduce or eliminate tax liability for a company. Because of the company-specific nature of these incentives, this comparison does not account for these special tax incentives. For purposes of this comparison, tax incentives are limited to tax provisions available to all businesses operating in a state.

#### 1. Property Tax

*General Assumptions.* Property taxes are calculated for 2004/2005 (i.e., levied in 2004, payable in 2005). Table A.1 shows the property owned by the hypothetical corporation located in the states under analysis. It is assumed that 90% each category of the property owned is located in-state and 10% is located out of state. Taxes are applied for the 90% of property in the state.

**TABLE A.1**  
**FULL VALUE OF PROPERTY**  
**POTENTIALLY SUBJECT TO TAX**

<b>Real Property</b>	
Land	\$ 614,673
Buildings	<u>2,886,804</u>
Total Real Property	\$ 3,501,476
<b>Personal Property</b>	
Manufacturing Machinery and Equipment	\$ 4,342,856
Research Equipment	731,120
Other Non-Mfg. Equipments	107,209
Pollution Control Equipment	107,209
Computer Equipments	139,468
Furnitures and Fixtures	57,078
Inventory	2,246,114
Intangibles	<u>1,041,577</u>
Total Personal Property	\$ 8,772,631
<b>Total Real and Personal Property</b>	<b>\$ 12,274,107</b>

The full value of property is generally assumed to be the net book value of the land and personal property accounts. The book value of the land and buildings is increased by 50% to reflect the impact of increases in the value of real property on the current market value, which is usually the basis for assessment. Each state may measure full value differently due to different depreciation and assessment practices. Assessment ratios are applied to calculate assessed values since states employ different practices. Assessment ratio and tax rates used for each state are described below.

*Alabama.* Manufacturing property is assessed at 20% of its full value. The analysis assumes a tax rate of 5.06%. Taxes cannot exceed 1.5% of property subject to tax. Inventories are exempt. Intangibles are taxed under a net worth franchise tax.

*California.* The average statewide property tax rate for the analysis is \$1.091 per \$100 of assessed value. Under Proposition 13, real property is generally assessed at 100% of its 1975/76 full value subject to an increased value of not more than 2% per year for each year since 1975/76, unless the property is transferred. The analysis assumes that real commercial/industrial property in California is assessed at 61.5% of full value. Intangibles and inventories are exempt. Motor vehicles are subject to a license tax in lieu of property taxes; the license tax is not included in this analysis because license fees in other states are not included.

*Georgia.* The analysis assumes that real and tangible personal property is assessed at the statutory rate of 40% of fair market value. The statewide average tax rate is estimated to be \$30.25 per \$1,000 of assessed value (including 0.25 state levied mill rate). The property tax applies to all real and personal property, including inventories. However, businesses may apply for an exemption and most counties exempt all inventories. As such, the analysis assumes inventories are exempt. Intangibles are exempt.

*Illinois.* Real property is assessed at 33 1/3% of fair market value. The analysis uses the 2003/2004 statewide average industrial tax rate of \$7.45 per \$100 of assessed value, or 2.48% of fair market value. The property tax applies only to real property. Intangibles and all tangible personal property are exempt from taxation.

*Indiana.* Property is assessed at 100% of true value at a rate of 2.41% per \$100 of value. The property tax applies to all real and tangible personal property, except vehicles. Vehicles are not subject to the property tax; rather they are subject to an annual license fee in lieu of property taxes that is not included in the study. Beginning in 2006, a deduction is available for inventory. Also beginning in 2006, an investment deduction is available for new property that creates or retains employment, with a presumption that any reasonable claim allows the deduction. The deduction is 75% in the first year, 50% in the second year and 25% in the third year. The analysis assumes that the deduction applies.

*Iowa.* Commercial and industrial real property is assessed at 100% of full value. The statewide average effective property tax rate for industrial property is \$35.12 per \$1,000 of assessed value. Tangible personal property and intangibles are exempt.

*Michigan.* The statewide average effective tax rate used in the analysis is \$51.68 per \$1,000 of taxable value. For purposes of this study, taxable value of property is assumed to be 43% of actual value. Each year, the taxable value of property cannot increase by more than 5% or the rate of inflation, whichever is less, unless the property is transferred or sold. Motor vehicles, inventories and intangibles are exempt from tax.

*Minnesota.* The statewide average tax rate for industrial and commercial real property used in the analysis is \$3.31 per \$100 of assessed property. Industrial and commercial property is assessed at a statewide ratio of 81.5% of actual full value. The property tax applies only to real property. Intangibles and all tangible personal property are exempt from tax.

*North Carolina.* Real and tangible personal property is assessed at 100% of true value. However, because the assessment is done every four years, this analysis assumes 91.52% of fair market value. The average statewide tax rate is \$0.936 per \$100 of assessed property. Intangibles and inventories are exempt.

*Ohio.* Real property is assessed at 35% of full value and tangible personal property is assessed at true depreciated value. The statewide 2002/2003 average effective tax rate for real industrial property is \$62.50 per \$1,000 of assessed value. The overall statewide effective rate is \$58.50 per \$1,000 of assessed value. The property tax applies to all real and personal property, including inventories, but not including intangibles and transportation equipment. However, the personal property tax is being phased out. The assessed value of business personal property for the analysis is 18.75%. There is a \$10,000 exemption against the aggregate value of tangible personal property.

*Oregon.* Property is assessed at 71.41% of full value. The statewide average effective tax rate is \$10.80 per \$1,000 of assessed value. Inventory and intangibles are exempt.

*Pennsylvania.* Property is assessed at a statewide average ratio of 68.47% of fair market value. All personal property is exempt from taxation. The statewide average property tax rate for this comparison is 2.91% of assessed value.

*Virginia.* Real estate, motor vehicles, and manufacturing equipment are taxed at the local level. The local median assessment ratio is 75.56% and the rate is \$.90 per \$100 of assessed value. Inventory, furniture and fixtures, computer equipment, and intangibles are exempt from tax.

*Washington.* Real and personal property are assessed at 100% of their highest and best use as of January 1 of a given year, which results in an average assessment of 91.6% for real property and 94.7% for personal property. The statewide average tax rate is \$11.87 per \$1,000 of value. Inventories and intangibles are exempt.

*Wisconsin.* Real and tangible personal property is assessed at 100% of full market value. The statewide average tax rate is \$20.0 per \$1,000 of value. Machinery and equipment used in manufacturing, inventories, vehicles, and intangibles are exempt. Certain computer equipment is exempt, including mainframe computers, minicomputers, personal computers, servers, terminals, monitors, disk drives, printers, basic operational programs, system software, prewritten software, and custom software.

## 2. Sales Tax

*General Assumptions.* As used in this study, the term "sales tax" includes "use tax" and refers to one-time taxes imposed on the purchase price of items. The sales tax rate used in the comparison is the state sales tax rate plus the local tax rate.

The comparison calculates the amount of sales tax that would be paid by the hypothetical corporation on its taxable purchases of tangible personal property, and fuel and electricity. The comparison follows the same assumption as used in the property tax analysis that 90% of the property purchased by the multistate corporation will be located and used in the home state and therefore subject to sales tax in that state. Table A.2 shows the total of in-state purchases (90% of total purchases).

**TABLE A.2**  
**PURCHASES POTENTIALLY SUBJECT TO SALES TAX**

Mfg. Machinery & Equipment	\$ 851,748
Research Equipment	334,606
Pollution/Environmental Equipment	28,295
Other Non-Mfg. Equipment	28,295
Computer Equipment	73,614
Furniture and Fixtures	14,324
Mfg. Fuel & Electricity	578,634
Research Fuel & Electricity	118,713
Total Purchases	\$ 2,028,227

The sales and use tax rate used in the study is the state general sales and use tax rate plus a local general tax rate for those states with local general sales and use taxes. The study combines a general local rate with the general state rate to arrive at the effective sales and use tax rate. For example, since local sales and use tax is 0.5% in 56 of Wisconsin's 72 counties, this study uses a combined state and local sales and use tax rate of 5.5%—the 5% state rate plus a 0.5% local rate—which is the rate a corporation is most likely to encounter when doing business in Wisconsin. Special utility tax rates are used in those states where applicable but other selective sales taxes, such as those on lodging or meals, are not considered.

The study calculates the amount of sales and use tax that the hypothetical firm would pay on its taxable purchases of personal property, and fuel and electricity under the laws of the state as of January 1, 2006. It is assumed that the hypothetical corporation purchases new and replacement personal property on a regular basis. The variation in the sales tax treatment of these purchases between states results in significant differences in total sales taxes. Variations among states arise from differences in tax rates and exemptions. In addition, some states' economic development programs provide preferential sales and use tax treatment based on geographic location, numbers of jobs created, or minimum amounts of investment. Such programs may also require certification of approval by an agency, such as the state Department of Commerce. Since the preferential treatment afforded under these



programs may not be available to all companies, this study does not reflect such economic development programs.

Purchases of new personal property are considered to reflect the normal replacement of a firm's existing property plus additional new capital to increase output, reduce costs or improve productivity.

"Manufacturing machinery and equipment" includes items used directly in the manufacturing process. The category includes computers used in the manufacturing process while computers used for general business purposes are excluded.

"Research and development equipment" includes equipment used in development of new products and processes.

"Other non-manufacturing equipment" assumes 50% of the equipment included in the category is pollution control and recycling equipment and 50% is miscellaneous non-manufacturing equipment. Other non-manufacturing equipment would include equipment used for packaging, labeling, and materials handling equipment, building maintenance and janitorial equipment, and non-computer office equipment.

Items included in the "computer equipment" category are assumed to be office-related equipment, such as personal computers, printers, servers, and software. Computer equipment used for manufacturing or research and development is included in the M&E category.

The "furniture and fixtures" category assumes all fixtures retain their character as tangible personal property; none are incorporated into the building to become real property.

"Fuel and electricity" does not include gasoline or other motor vehicle fuel. Energy use is assumed to consist solely of electricity and natural gas with expenditures for natural gas accounting for 60% of the total amount spent and electricity accounting 40%. Some states tax these fuels at a reduced rate. In addition, the amount of sales tax paid on purchases of fuel and electricity used in the manufacturing process and for research and development are calculated. The assumptions for purchases of fuel and electricity for the hypothetical corporation were developed from federal corporate income tax statistics and Wisconsin corporate income tax statistics. The data and assumptions are based on averages for actual firms having assets and sales similar to those of the hypothetical corporation. Some states provide special treatment for other fuels, such as coal, but information is not available to break fuel use down by type of fuel.

*Alabama.* The combined general state and average local rate is 6.59% (4% state rate and 2.59% average local rate). Manufacturing machinery and equipment and research and development equipment are subject to a reduced tax rate of 2.59% (1.5% state tax rate and a 1.09% average local rate). Electricity and gas are exempt from sales and use tax if the utility provider is subject to the utility gross receipts tax. The paper assumes electricity and gas are exempt from sales tax and does not include utility gross receipts taxes in the calculations. .

*California.* The combined state and local rate is 7.25% (6.25% state rate and 1% local rate). Purchasers of manufacturing machinery and equipment, research and development equipment, and pollution control equipment may file a claim for refund of sales and use tax paid in the amount of the repealed 6% manufacturer's investment credit, thereby reducing the effective sales tax rate to 1.25% on purchases of these inputs. Sales of electricity and natural gas are exempt from sales tax. A partial exemption of manufacturing machinery and equipment expired January 1, 2004.

*Georgia.* The combined state and local rate is 6% (4% state rate and 2% local rate). Purchases of manufacturing machinery and equipment and pollution control equipment are exempt from tax. Georgia's exemption for purchased electricity does not apply – Georgia exempts purchased electricity that interacts directly with a product being manufactured when the total cost of the electricity makes up 50% or more of all the materials being used in making the product.

*Illinois.* The combined state and local rate is 7% (6.25% state rate and 0.75% local rate). Purchases of manufacturing machinery and equipment are exempt from tax. In addition, an Illinois manufacturer may receive a Manufacturer's Purchase Credit (MPC) equal to 3.125% of the purchase price of machinery and equipment used in manufacturing. MPCs may be applied to sales tax liability owed on production-related taxable goods including pre-production material handling, receiving, quality control, inventory control, storage, staging, and packaging for shipping and transportation purposes, and research and development. Pollution control facilities are taxable (an exemption was repealed as of July 1, 2003). In this study, the MPC was applied to the corporation's sales tax liability for purchases of research equipment, pollution control facilities, and other non-manufacturing equipment. Fuel and electricity purchases are subject to a 5.1% tax.

*Indiana.* The state rate is 6%. Local sales taxes are not authorized. Purchases of manufacturing machinery and equipment, pollution control equipment, and fuel and electricity used in manufacturing are exempt from sales tax. From June 30, 2005, to July 1, 2007, purchasers of research equipment may claim a refund of 50% of sales or use tax paid on research equipment. After July 1, 2007, purchasers may claim a refund of 100% of tax paid on research equipment. The paper focuses on 2006 and the calculations reflect a refund of 50% of the tax on research equipment.

*Iowa.* The general state sales tax rate is 5% and the median local sales tax rate is 2%, for a combined state and local rate of 7%. Purchases of manufacturing machinery and equipment, research equipment, pollution control equipment, and fuel and electricity used in manufacturing or research and development are exempt from sales tax.

*Michigan.* The state rate is 6%. There is no local tax. Purchases of machinery and equipment and fuel and electricity used in industrial processing are exempt from tax. Industrial processing includes patent, experimental, and development activities and fuel and electricity used in those activities. Purchases of pollution control equipment are also exempt.

*Minnesota.* The state rate of 6.5% is used in the study since only a few local governments impose a local sales tax. Purchases of manufacturing machinery and equipment and

research and development equipment are taxable, but the purchaser may apply for a refund of tax. The paper assumes the corporation applies for and receives available refunds, effectively exempting these purchases from tax. Purchases of fuel and electricity used in manufacturing are exempt from tax.

*North Carolina.* The general state sales tax rate is 4.5% and the median local sales tax rate is 2.5% for a combined state and local rate of 7%. Special rates apply to specific types of purchases. Purchases of manufacturing machinery and equipment are taxed at 1% up to a maximum of \$80 per article. This study assumes that the \$80 cap has the effect of exempting 75% of these purchases from tax. Purchases of electricity used in manufacturing are taxed at 2.83%. Piped natural gas is exempt from sales tax but subject to an excise tax based on usage; an estimate of the excise tax paid was not included in this study.

*Ohio.* The general state sales tax rate is 5.5% and the median local sales tax rate is 1.5% for a combined median state and local rate of 7%. Purchases of machinery and equipment used directly in manufacturing, research equipment, pollution control equipment, and machinery and equipment used in packaging are exempt. Purchases of fuel and electricity used in manufacturing and research are also exempt from tax.

*Oregon.* Oregon does not impose sales or use taxes.

*Pennsylvania.* The state rate is 6%. Since only Allegheny County (Pittsburgh) and Philadelphia impose 1% local taxes, the combined rate for this study is 6%. Purchases of manufacturing machinery and equipment, and parts and supplies are exempt from tax. Also, the State of Pennsylvania and the City of Philadelphia have designated economic development zones in which businesses may qualify for additional sales and use tax exemptions.

*Virginia.* The state sales tax rate is 4% and the median local rate is 1%, for a combined state and local rate of 5%. Purchases of manufacturing machinery and equipment, research equipment, and pollution control equipment are exempt from tax. Purchases of fuel and electricity delivered to consumers through mains, pipes or lines are exempt from sales and use taxes but are subject to a utility tax based on usage; an estimate of the utility tax is not included in this paper.

*Washington.* The state sales tax rate is 6.5% and the average local rate is 1.9%, for a combined state and local rate of 8.4%. Purchases of manufacturing machinery and equipment, research and development equipment, pollution control equipment, and electricity used in manufacturing are exempt from tax. Natural gas is exempt from sales tax if it is subject to a 3.6% use tax or if the gas distribution business from which the gas is obtained has paid the 3.6% public utility tax. The paper assumes gas would be obtained from a utility subject to public utility taxes and is excluded from the calculation.

*Wisconsin.* The state sales tax rate is 5% and the median local rate is 0.5%, for a combined state and local rate of 5.5%. Purchases of manufacturing machinery and equipment, pollution control equipment, and fuel and electricity used in manufacturing are exempt from tax. In addition to the general exemption for fuel and electricity used in manufacturing, Wisconsin law specifically exempts any residue that is used as fuel in a business activity and that results from the harvesting of timber or the production of wood products, including slash, sawdust, shavings, edgings, slabs, leaves, wood chips, bark, and wood pellets manufactured primarily from wood or primarily from wood residue.

### 3. Corporate Income and Franchise Taxes

*General Assumptions.* The income tax calculations are based on a taxable year beginning on January 1, 2006. The starting point for the tax calculation is federal income before deductions for taxes because the amount of state tax deductions affects the income subject to tax in a state. Taxable income before taxes is shown in Table A.3.

**TABLE A.3**  
**INCOME TAX ASSUMPTIONS**

Sales	\$ 24,615,971
Cost of Goods Sold	16,969,399
Gross Profit	7,646,572
Other Receipts	411,929
General Expenses	6,975,400
Income Before Tax	\$ 1,083,101

The comparison assumes that the wood products manufacturing company is a multistate corporation that apportions some of its income to other states; it is assumed that all of the income of this corporation is subject to apportionment. The apportionment ratios used are as follows:

- Total real and tangible property in-state / Total real and tangible property everywhere = 90%
- Total payroll costs in-state / Total payroll costs everywhere = 90%
- Sales destined for in-state purchasers / Sales destined for purchasers everywhere = 30%

The 90% ratios for property and payroll and the 30% ratio for sales reflect the assumption that the corporation sells its products on a regional or national basis. The remaining 10% of property and payroll and 70% of sales are assumed to be allocable to other states. The allocation of some property, payroll and sales to other states is not taken into consideration in computing the income tax burden of the corporation; the allocation would affect the total state tax burden of the corporation to the extent that it was subject to tax in other states.

Using these assumptions, income apportioned on the basis of the simple average of the three factors—property, payroll, and sales—results in an apportionment percentage of 70%. This means that 70% of the income of the profitable corporation is subject to tax in states that apportion using this method. Many states require corporations to apportion most income with a formula that double-weights the sales factor. Double-weighting the sales factor reduces the apportionment percentage to 60%  $[(90\% + 90\% + 30\% + 30\%)/4]$ . Income apportioned based only on the sales factor would further reduce the apportionment percentage to 30%.

A deduction is allowed for the amount of sales tax paid in the current year on purchases of new personal property. Since states generally follow federal law, which requires sales taxes to be capitalized into the cost of the asset, the current year sales tax liability is used as a simplified proxy for the depreciation and other deductions that the hypothetical corporation would claim.

This comparison includes only tax credits available to all wood products industry corporations that have made the investments or expenditures required. Special state tax credits and other incentives associated with enterprise or redevelopment zone programs are not included in the comparison. Such special tax credits are not included because of the difficulty in developing the detailed assumptions necessary to compute the tax credits, and because the credits are typically negotiated with businesses by a state department and may not be

generally available or applicable to all corporations. Similarly, investment credits that require creation of additional jobs are not included.

Some states, such as California and Minnesota, impose a corporate alternative minimum tax patterned after the federal alternative minimum tax. It is assumed that the corporation in the comparison is not subject to the alternative minimum tax.

The term "franchise tax" as used in this comparison refers to franchise taxes based on capital stock, net worth or other asset-related measures as well as annual corporate filing fees that may be paid to the Secretary of State or similar offices in the various states. Franchise taxes measured by corporate net income are included under the income tax.

The hypothetical corporation is assumed to be a domestic corporation for franchise tax and filing fee purposes. All intangible property, such as patents and copyrights, is located in the state. Table A.4 shows the amount of stocks, paid-in capital and retained earnings of the hypothetical company. These assumptions are used in calculating franchise taxes based on stockholder's equity.

**TABLE A.4**  
**FRANCHISE TAX ASSUMPTIONS**

Common Stocks & Paid-In Capital	\$ 2,412,435
Retained Earnings	4,844,486
Stockholder's Equity	\$ 7,256,921

*Alabama.* The income tax rate is 6.5%. Income is apportioned using a formula that equally weights the payroll, property, and sales factors, making the apportionment percentage for this comparison 70%. A deduction is allowed for an apportioned share of federal income taxes. State income taxes are not deductible.

A business privilege tax based on net worth that is apportioned to the state ranges from \$1 per \$1,000 to \$1.75 per \$1,000 of net worth over \$2.5 million. The minimum tax is \$100. In addition, there is an annual filing fee of \$10 that is sent to the Secretary of State.

*California.* The income tax rate is a flat 8.84%, with a minimum tax of \$800. Income is apportioned using a double-weighted sales factor formula, making the apportionment percentage for this comparison 60%. An investment credit, equal to 6% of the cost, is available for qualified manufacturing and research and development tangible personal property used in any stage of the manufacturing or research and development process. The credit cannot be applied to expenditures for which a sales tax exemption was claimed. Credits cannot reduce tax liability below \$800 annually. California imposes an alternative minimum tax; this comparison assumes that the corporation is not subject to that tax.

There is no state franchise tax other than an annual filing fee of \$20 that is included with the "Statement of Officers" that must be filed annually with the Secretary of State.

*Georgia.* The income tax rate is a flat 6%. Georgia is phasing in single-sales factor apportionment, which will be fully effective in 2008. Income is apportioned in 2006 using a three-factor formula that weights the sales factor at 80% for an apportionment percentage of 42% in this comparison. Georgia income tax is deductible.

A franchise tax based on a corporation's net worth ranges from \$10 for net worth under \$200,000 to \$5,000 for net worth over \$22 million. An annual filing fee of \$15 is paid to the Secretary of State.

*Illinois.* Two income taxes are imposed on the same tax base: the regular income tax rate is a flat 4.8% and the personal property replacement tax is 2.5%. The total tax is equal to the sum of the two taxes. Income is apportioned using a single-sales factor apportionment formula, which results in 30% of income being apportioned to the state for the hypothetical corporation. A standard exemption of \$1,000 is allowed under the regular income tax to the extent of the apportionment percentage. A credit is allowed against the regular income tax in an amount equal to an apportioned share of the replacement tax multiplied by the regular income tax rate of 4.8%. A credit is available against the personal property replacement tax for taxable years before 2009 for purchases of depreciable manufacturing equipment with a useful life of at least four years.

A franchise tax is imposed at a rate of \$1 per \$1,000 on an apportioned share of the amount of capital stock and paid-in capital, with a minimum tax of \$25 and a maximum tax of \$1 million per year. The tax is apportioned using a two-factor formula based on real and personal property (including intangibles) and sales. An annual report is filed with the Secretary of State along with a \$75 filing fee.

*Indiana.* The income tax is imposed at a rate of 8.5%. Single-sales factor apportionment is being phased in beginning in 2007; it will be fully effective for taxable years beginning in 2011. Income is apportioned using a formula that double weights the sales factor in 2006. As such, the apportionment percentage for this analysis is 60%. No deduction is allowed for state income taxes. There is no franchise tax other than an annual filing fee of \$15 that is paid to the Secretary of State.

*Iowa.* Net income is taxed at rates ranging from 6% for income under \$25,000 to 12% for income over \$250,000. Income is apportioned using a formula based solely on the sales factor. As such, the apportionment percentage for this analysis is 30%. Fifty percent of an apportioned share of the federal income tax paid is deductible from state income. A \$30 annual filing fee is paid to the Secretary of State.

*Michigan.* The Michigan income tax, the Single Business Tax (SBT), is a type of value added tax that applies to business earnings. The tax rate is 1.9%, and the tax base is federal taxable income, with certain additions and subtractions. Additions include compensation paid to employees and depreciation or amortization deductions claimed in the current year for federal tax purposes. Subtractions include an excess compensation deduction that is based on the percentage that compensation exceeds 63% of the total tax base prior to apportionment and a gross receipts reduction for corporations with a tax base that is greater than 50% of adjusted gross receipts. Adjusted income is apportioned based on a three-factor formula that weights the sales factor at 90% and property and payroll each at 5%, making the apportionment percentage 36% for this analysis. The SBT is repealed for taxable years beginning in 2010. An annual filing fee of \$15 is paid to the Department of Commerce.

*Minnesota.* The income tax rate is a flat 9.8%. Income is apportioned based on a three-factor formula that weights the sales factor at 75% and each of the property and payroll factors at 12.5%, making the apportionment percentage 45% for this comparison. An alternative minimum tax is imposed if it exceeds the income tax; it is assumed that the hypothetical corporation is not subject to that tax.

The corporate income tax includes an additional fee based on the weighted sum of property, payroll, and sales. The fee ranges from \$100 for corporations with a weighted sum of at least \$500,000 but less than \$1 million, to \$5,000 for corporations with a weighted sum in excess of \$20 million. There is no annual filing fee for domestic corporations.

*North Carolina.* The corporate income tax rate is 6.9%. Income is apportioned using a three-factor formula that double weights the sales factor, making the apportionment percentage for this comparison 60%.

A franchise tax is imposed at the rate of \$1.50 per \$1,000 on the greater of three tax bases. The three tax bases are: (1) capital stock, surplus, and undivided profits; (2) investment in tangible property in North Carolina; and (3) appraised valuation of North Carolina property subject to local taxation. A \$10 filing fee is paid to the Secretary of State.

*Ohio.* The corporate income tax is the greater of an income based or a net worth based calculation. The minimum tax is \$50, increasing to \$1,000 if the company has at least \$5 million of gross receipts or 300 employees in the state. The first \$50,000 of income is taxed at a rate of 5.1% and income over \$50,000 at 8.5%. State income tax is deductible from taxable income. Income is apportioned using a triple-weighted sales factor formula, making the apportionment percentage for this comparison 54%. The income tax is being phased out over a five-year period and is being replaced with a commercial activity tax.

The net worth based calculation is 4 mills of net worth (assets minus liabilities), with a \$150,000 maximum liability. Net worth is apportioned using a two-factor formula based on property and sales. The apportionment percentage for this comparison is 60%.

Manufacturers are subject to an additional two-tier litter tax. Tier 1 of the litter tax is 0.11% of the first \$50,000 of taxable income plus 0.22% of income over \$50,000. Tier 2 of the litter tax is imposed on manufacturers and is the greater of 0.22% of income over \$50,000 or 0.14% of taxable net worth. Neither tier of the litter tax may exceed \$5,000.

The commercial activity tax that is replacing the income tax is based on gross receipts. For gross receipts of \$150,000 to \$1 million, the tax is \$150. When the tax is fully phased in, the rate will be 0.26% of gross receipts over \$1 million. The rate is subject to adjustment if revenue collections are 10% more or less than projections.

*Oregon.* The corporate income tax rate is 6.6%. Income is apportioned using a single sales factor formula, making the apportionment percentage for the comparison 30%. A \$30 annual filing fee is paid to the Secretary of State.

*Pennsylvania.* The corporate income tax rate is a 9.99%. Income is apportioned using a three-factor formula that triple-weights the sales factor, which apportions 54% of income to the state for this analysis.

Corporations pay a franchise tax based on capital stock at a rate of 0.699%. The tax is apportioned based on an equally-weighted three factor formula, making the apportionment percentage 70% for this comparison. This tax is being phased out and is expected to be fully eliminated in 2010.

Manufacturers are allowed an exemption for a portion of the tax. It is assumed that 20% of the amount of capital that would otherwise be subject to tax is actually taxed as a result of the exemption. There is no other annual filing fee.

*Virginia.* The corporate income tax rate is a flat 6%. Income is apportioned using a formula that double-weights the sales factor. As such, the apportionment percentage for this analysis is 60%. In addition, there is a \$10 annual litter tax on certain businesses, including manufacturers.

There is an annual filing fee paid to the State Corporation Commission. The fee is \$50 if the corporation has authorized shares of 5,000 or less; the fee increases by \$15 for each 5,000 in shares, or fraction thereof, up to a maximum of \$850.

*Washington.* There is no general corporate income tax. There is a business and occupational tax based on the gross receipts of products manufactured in the state. The rate for general manufacturing is 0.484% until June 30, 2006, and 0.4235% until June 30, 2007. Thereafter, the rate is 0.2904% through June 30, 2024. Localities may levy their own business occupational tax in addition to the state tax. In addition, a \$50 annual license fee and a \$10 annual report fee are paid to the Secretary of State.

*Wisconsin.* The corporate income tax rate is a flat 7.9%. Income is apportioned using a three-factor formula that weights the sales factor at 60%, making the apportionment percentage for this comparison 54%. A recycling surcharge equal to 3% of gross tax liability is imposed on corporations with more than \$4 million in gross receipts. The minimum fee is \$25; the maximum fee is \$9,800. Wisconsin is phasing in single-sales factor apportionment. The sales factor will be weighted at 80% in 2007 and 100% in 2008. This analysis includes a comparison of Wisconsin law when single-sales factor apportionment is fully phased in.

There is no franchise tax other than a \$25 annual filing fee that is paid to the Department of Financial Institutions for returns filed electronically. The fee is \$40 for filing paper returns.